
INTERNATIONAL JOURNAL OF SCIENCE ARTS AND COMMERCE

Human Resources Accounting: Accounting for the most important resource of the enterprise

Nour elhouda HADDAD

Department of Commerce

Faculty of Economics, Commerce and Management, University of Setif 1

Setif – Algeria.

Abstract

Today, enterprises recognize very well that the primary factor which provides them a sustainable competitive advantage are their workers. However, its financial reporting always devoid of any data relating to human resources in the project, which led to the expansion of research and discussions about what has been termed “human resources accounting”. The aim of this study is to shed light on the accounting of human resources. Thus, we found that the characteristics of the assets apply heavily on human resources, and its inclusion in the accounting disclosures deepens the informational dimension of financial reports. But this resource is characterized by the difficulty of measuring and providing reliable information about it, which is a major obstacle to applying the human resources accounting, which requires a more in-depth researches in this area.

Key words: Human resources accounting, sustainable Competitive Advantage, Intangible assets, measurement, disclosure.

Introduction

The substantial transformation in the global economy from an economy based on industry to a knowledge economy, resulting an increasing demand for “high-tech services” provided by the individuals with high abilities, scientific and professional competencies. Thus, there has become an increasing focus on human capital and lower one on physical capital to provide these services, and achieve competitive advantage and wealth. With the entering of technology and knowledge era, it became clear that the human element is the real influential in the success of the enterprises and the achievement of sustainable competitive advantage, so who can organize

financial resources, information technologies, and before and after this, organize and manage human resources, will occupy leadership as long as he has the power of individuals and their intelligence and knowledge. Today, enterprises recognize very well that the primary factor which provides them a sustainable competitive advantage are their workers, however, its financial reporting always devoid of any data relating to human resources in the project, in terms of the degree of efficiency or the extent evolution of these efficiency from period to another. This actually loses accounting disclosure the property of the equilibrium which must be achieved between the material and financial resources of the project, which information about them are disclosed within several lists of financial reports, and between human effort, the engine of these resources, which is not disclosed in the financial reports, despite the importance of information about it for users, because the allocation of significant investment in human resources through polarization, recruitment and training, may in some cases exceed what is allocated for investments in physical resources, for example, when a company wants to hire someone with high efficiency, they may have to carry out an extensive research which may require advertisement in newspapers, pay the expenses to bring potential candidates, and even pay high wages for a company specializing in return for researching such competencies. But, we find that this human investment which could be up to a huge amount, and has become a large relative importance in the decision-making by the users of financial reports, is currently treated as operating expenses under generally accepted accounting principles, while a low investment in a laptop for example, is being treated as enterprise's assets. Which means that there is a clear flaw in the measurement of income when it recognize all expenditures on human resources as an expense, although these expenses were not to appear if they did not represent investments in human capital, which is already with expected future benefits. The need to provide financial information more able to show the real financial position of the enterprise requires more and serious deepen in the analysis of accounting's pattern of the human resources, which has been termed the "Human Resource Accounting". This study comes as an attempt to answer the following question: what is the basis of human resource accounting, and to what extent it is possible to consider human resource as one of the enterprise's assets?

Human Resources and the value of the enterprise

Human resources are the most important factor of production in modern age, because they are the source of creativity and innovation, they design the product, supervise manufacture, control the quality, sell the product, invest in capital, and they are responsible for setting goals and strategies. So without good and effective human resources we can't perform these things efficiently, and any enterprise will not be able to achieve its objectives and mission. The individual is the most important influential factor on productivity in various enterprises, that he can with his manner of performance and work, and his method of use of the machine to affect positively or negatively the productivity of the machine itself, also he can compensate with his skill the poor machine or its obsolescence and weak productivity, therefore we can say that productivity is determined basically by the pattern of the individual performance. For that

reason, the enterprise in order to become more productive, there must be a real desire of its individuals and to have the capacity needed for that, because Stockpiling of equipment and the use of the latest innovations will not be feasible if individuals miss the qualifications required, or they have not a real desire to improve productivity. The experience of East Asian countries shown by each of Sonobe & Otsuka in 2006 (Khondoker & Sonobe, 2010, p.7), has expressed that the enterprises which are managed by managers with relatively high education levels tend to grow successfully, because they can assess the profitability more accurately, and therefore they can take risks in a calculation manner in the form of improving the quality of the product, using the latest technology and improve the quality of raw materials and machinery. The study also pointed out that businessmen who are relatively highly educated are also active in the discovery of new channels to market their products, and improve the quality, or create their own brand to avoid the problem of asymmetric information, that arise between buyers and sellers because of difficulties in checking the quality of the product.

In light of these facts, the enterprises today need members who have a wider stock of knowledge and skills, and able to think and to excel in vague future; this requires enterprises keen to maximize the efficiency of its human resources by doing the following: (Neamet, 2010, p.204)

- polarizing human capital through the research on advanced and renewable experiences, attract high skills, and provide information system which facilitates the process of attraction and polarization;
- transformation of human capital through strengthening the capacities of persons;
- Activation of human capital, encouraging enthusiastic groups and attention to the views of employees;
- Maintaining the human capital through continuous training, development, material and moral motivation.

It is worth mentioning here, that employee behavior plays an influential role on the performance level of service enterprises, such as banks and retail stores, because human resources play a vital role in these enterprises, where the studies indicate that providing of rehabilitation programs and social adaptation [1] of new employees, in addition that the possibility of progress through their career plays an influential role in the quality level of service they provide to customers (Dessler, 2007, p.53). In this context, we find some international Companies resort to raising the wages of its workforce if it is characterized by loyalty and commitment, which enabling them to produce high quality products with a lower cost, for example, the Japanese company TOYOTA that achieve a competitive advantage in the cost of the cars production, thanks to the existence of a work force more committed and more competitive (Dessler, 2007, p.56). Today, there is a dire and continuous need to raise the capacity of enterprises to achieve its goals at the required level, which relies on the efficiency of the individuals in the performance of their work, so enterprises strategic asset today and in the

future are human beings, information, and the power of the human mind represented in computer programs, all of these are the driving forces for profitability (INTEC, 2004, p.295). If the enterprise is aware of the importance of employees, and, if it desire to achieve creativity, innovation , development of its products, to work faster, efficient and skilled use of information technology; there is no way in front of her only to maintain strongly the most important asset owned, namely, Human Resource, and start to treat him with interest and respect, give him more training, suitable working conditions, stimulus programs and opportunities for advancement, with reinforcement and encouragement, and provide a flexible structure which helps to show the talents of each individual, which represent one of the competitive advantages that drive sustainable enterprises to the summit.

Assessing the current status of human resources in the accounting

The goal of financial accounting is to provide financial information suitable for decisions taken by the users, including sufficient information about the enterprise' assets which have a relative importance, and information concerning human resources are relevant and useful information for a wide range of decisions taken by internal or external users, or both. Therefore, we find researchers in accounting are making a lot of efforts to give monetary values for these events, and pending the success of those efforts, these events have remained outside the framework of the accounting records.

Human resources in the current accounting systems

Who follows accounting knowledge observes its relation with the prevailing economic concepts. Under the rule of the classical economic theory that takes the concept of economic welfare, the responsibility of the enterprises was associated with the concept of economic responsibility as a basis for achieving social welfare, and that, because the economic responsibility reflects intrinsically the exploitation of the resources available to the enterprises, in an optimal way to ensure profit maximization, which leads to the achievement of each the self-interest of the enterprise, and the public interest of the community at the same time, according to the terms of Parito's theory of optimal situation that achieves the maximum social welfare (Badawi & Othman, 2000, p.445). This was reflected by the concentration of accounting to measure the profitability of economic unity, considering that profit is the only measure of the efficiency and the report of its available economic resources, which is generally limited to resources owned by it, and the corresponding financial structure, so as to reflect in the end the rights of owners. With the rise of many criticisms to the concept of economic responsibility as a basis to maximize social welfare, because of the evolution of the concept of the economic unit as a social subsystem, must operate in order to achieve a balance with him – society- to ensure the continuation, it became sure that the economic responsibility does not necessarily lead to the maximization of social welfare. In addition to the development of the knowledge of human factor importance; appeared in 1975, the school of social welfare, with a new accounting concept, means that the accounting serve the public interest as well as special interest.

According to the traditional concept, accounting has focused on the private interest, that is, it serve the owners of the project by maximizing profits, but according to social welfare school, accounting is not a service and utilitarian tool for the investors only, but it expand to include the interests of society, and if the field of accounting widened within this concept, it will contribute to the achievement of social welfare (Al- Hiyali, p.291).

With the reflection of economic thought evolution on the accounting thought, in terms of the interest in social responsibility for the economic unit, it appeared a numerous accounting studies stresses the importance of disclosure on the extent of the enterprise fulfillment to its social responsibility, which should be on the same degree of importance of the disclosure of economic responsibility as a basis for achieving social welfare. These studies have shown that to improve the areas of accounting disclosure and expand its content, requires to not focus on financial information only, but it should be extended to involve new areas, most important like the disclosure of human resources. Hence, as a result of the developments that have occurred with the concepts of social welfare, a trend emerged calls for the heads of accounting thought to study and analyze the human resources and show it in the financial reports. Besides the previously mentioned theories, there have been, in time, many theoretical interpretations trying to explain financial-accounting information, but not limited, to justify their necessity and importance within an enterprise's reporting, and among the most representative interpretations we would mention the stakeholders' theory, the legitimacy theory and the agency theory.

According to the stakeholders' theory, management performed activities of the entity is requested by the stakeholders and, it must reports to them information connected to the performed activities. The theory suggests that stakeholders have the right to be supplied with information on how the entity's activities reflect upon them, even if they do not choose to use the respective information and even if they cannot play a constructive role in the entity's survival (Ienciu, 2012, p.250). This theory expands the organizational responsibility of beyond the entity's financial or economic operations, which suggests that enterprises will choose to disclose information about their human capital, social, and environmental activity, regardless of whether the request is mandatory or not. The legitimacy theory is strongly connected to the stakeholders' theory. It points out that entities seek to ensure they operate within the bounds and norms of their respective societies, and it relies on the notion of "social contract"; which represents the implicit and explicit expectations that society has about how the organization should conduct its operations (Deegan, 2006, p.11). In accordance to this theory, enterprises should continuously operate such as to respect social values, and this can be done through various means of communication starting with reports prepared, and the disclosure of information about the human resources falls within this framework.

According to the agency theory, the presentation of human capital information is a control mechanism for the managers' performance, who has been motivated to voluntary disclosure of information relating to this subject in order to maintain their position in the market. It is known that transparency is one of the qualities of the financial accounting information, which will lead

to reduction of inequality in the financial community and this is the objective of agency theory through the reduction of information asymmetries. Although the accounting keeps up with the economic developments by seeking to achieve social welfare through the information disclosed, and keeps up with administrative developments as a tool which the management through it seeks to facilitate its functions and achieve its objectives to work on the use of available resources efficiently and effectively. However, it failed to keep up with the requirements of modern management with its breadth systems and multi-functions, not to mention the emergence of significant changes in enterprises, reflected in the large investments in based knowledge-resource (intangible) compared to investments in physical commodities, which were imposed on the accounting profession to interact with it qualitatively, by finding accounting treatments for this large gap generated between the financial position and market value of the enterprise, since traditional accounting through its very limited treatments is still incapable to resolve it objectively, and demonstrate a financial reports not presenting the true financial position of the enterprise. We can conclude that if there is a disagreement between accountants focused on the assessment of tangible assets, so how it is the case when evaluating intangible assets!, that are related to human capital the generator of the true value of the economic unit, so the accounting profession and accountants face many challenges related to the measurement and disclosure of human capital, and the problem is that many accountants are still clinging to the traditional principles which they consider that it represents objectivity in the measurement. Under the current accounting principles, we note a lack of the correct recognition and measurement of human resources in the financial reports, despite its importance in the economy and for the enterprise, and despite various attempts to change, the human resources are still regarded as a burden in the accounting treatment like raw materials, because we do not find accounting interested in human resources expenses, except with regard to accounting for wages, salaries, rewards, etc., as all of investments in human capital such as training and education are included in the expenditures (Chen & Lin, 2004, p.117).

Financial accounting at the end of each cycle takes into account part of the human capital in the form of wages paid to employees, these costs represent a burden on the enterprise, and therefore it is included at the historical cost in the income statement, and this shows the importance of it in financial reporting (Solène & Christelle, 2011, p.2). The function of calculating salaries involves calculating and recording wages that are worth shortly before the end of each pay period, for example, the management of salaries models gathering times coupes of each individual's work in the enterprise, calculated the amount owed, examine with supervisors coupes time doubtful, poses various deductions, and cuts down on the checks and related issues (Bragg, 2007,p.414), in addition to this salary, the expenses of training and recruitment may be added and recorded by the enterprise as well as expenses, so training is taken into account, but not from the view of what adds to employees of acquired knowledge; because we take into account these expenses without calculate future revenues. The neglect of measurement and disclosure of human resources in the current accounting systems refer to a number of accounting principles, preclude the keep up with the knowledge economy and measurement of human

capital, and the most important are: Monetary Unit (prove Currency Unit), historical cost, caution, and the relative importance (Al-Hafith, 2012, p.247), in addition that accountants are still clinging the objectivity of this existing accounting systems, as a result of the expression of real events enhanced by documents far from the diligence and personal appreciation, so these systems are unreliable in assessing the value of economic unit.

The need to change the current accounting treatment of human resources

Due to the great importance of the human resources, and that the goal of management is the optimal use of all resources, the need to provide relevant information about it, has called for changing the approach taken in accounting for the cost of human resources, since the traditional accounting failed to disclosure in their financial reports for any information related to those resources, and many enterprises have sought to measure the amount of investment in human capital, and how to rationalize its use. This subject has become one of the contemporary accounting problems, where that traditional accounting confined itself to accounting procedures that relate to salaries and wages, but concerning efficiency, skill and expected production capacity in the future of this resource are completely absent. The emergence of the modern service enterprises, which rely on human resources in performance, has led to interest in knowing the quantitative value of human resource, as the adequacy, effectiveness and efficiency of workers is a key factor in achieving efficient use of huge physical investments in modern industries. From the enterprises in which human resources play a crucial role we find: (Hannan, 2003A, pp. 109;110)

- Pharmaceutical companies, software and electronics companies in general, where the efficiency of individuals working in research and development, play a pivotal role in the province of entity's market share and competitiveness;
- Audit firms and companies which provide financial and technical consulting such as Arthur& Andersen, law offices, and companies of engineering studies; all are a companies in which the human capital formation and the development of human skills and competencies play an important role in their success;
- Football clubs, where they are contracted with some outstanding players in excess of millions of dollars, these amounts is not logical to be considered just as expenses.

In these enterprises, ignoring human resources and not to provide accounting information about them in the financial reports, is a real negligence that makes the information provided by the entity irrelevant and do not disclose the real financial and economic situation, and its numbers are very far from reality. In addition, we find that recently a new phenomenon emerged, which is the leasing of human resources, a similar phenomenon to the leasing of tangible resources like machinery and equipment, which accounting diligence settled to set the international standard IAS 17, which defined the terms of accounting for the leased asset, so that, considering the lessee asset as one of the enterprise's assets, and appear in its financial position report, became a

generally acceptable accounting procedure. Similar to the leasing of physical assets which is common used because of its benefits, it has become now companies specializing in the leasing of expert technical or administrative human resources, to solve various problems of the enterprises without recruiting them and becoming a part of its workforce. In this case the traditional accounting treatment of the leased human resources as an expense is inappropriate and must be changed, because these expenses have a future benefits. Also, one of the causes of changing the current accounting treatment of human resources, is that current treatment encourage short-term thinking, as it consider the spending on human resources as expenses and not investments, despite the full knowledge that investment in buildings and equipment its value decreasing with their use, contrary to the investment in human resources, and as an illustration, if we assume that the senior management has faced the necessity of making a decision about investing ten million dollars in fixed assets, or investing the same amount in human resources, here there is a big challenge whichever it will choose?. In practice, when the enterprise invests this amount in a tangible assets, this investment will decrease over time and returns will be less gradually over twenty to thirty years, and vice versa if the decision was taken to invest the same amount in the human resources, the yield will be low in the first year, but will double gradually, and because managers are strongly linked to financial results for the year that they are in it, the decision will be entirely clear for them (INTEC, 2004, p.87).

Under financial pressure entities seeks to invest in physical capital and not in human capital, but this kind of pressure may lead to the issuance of fault decisions from the administration, such as firing workers to reduce costs, even though studies frequently demonstrated the error of this kind of decision because market conditions may change at any moment, and the entity that has laid off employees may lose a lot if the market conditions flourished, so it is imperative to establish a measurement systems, especially for human resources, in order to show their contributions to the performance of the enterprise as a whole, through the rejection of the accounting treatment, which treat human resources only as a cost center. Based on the above, we can say that the superiority of human brains on machinery and equipment, and its contribution in creating value for enterprises, has made the classification of financial reporting, which considers the expenditure of human resources only as an expense, unacceptable, because it has become extremely traditional, and it's time to change it according to the contemporary foundations, and suit to the evolution of the look to workers as a strategic human capital. Due to these and other factors many accountants have demanded to change the look of accounting for human resources, and consider them as assets because of its importance. In this context Bedford has demanded the adoption of new methods of accounting in order to provide relevant information to the managers and decision-makers, instead of just relying on generally accepted accounting principles, as the only method of measurement (Belkaoui, 2009, p.396). This is what has led to the emergence of the Human Resources Accounting, which is based on the consideration of human resources as an asset to be measured and disclosed within the financial reports.

Human Resources Accounting: concept and basis

At first glance the term of Human Resources Accounting seems strange and unknown, and may this is due the limited literature in it. Most of the writers are taking accounting from the perspective of financial accounting or cost accounting, while human resources accounting is a new concept came to solve the problem of the economic and financial evaluation of human resources in enterprises that use the knowledge to create value. Hence the process of recognition and measurement of intangible assets related to employment has become known as the Human Resources Accounting, this process includes measuring the costs incurred by the entity and the rest of the other units to attract, select, invest, train and develop human resources, and also include its economic value from the perspective of the organization that they belong (Al- Kadi & Hamdan 2006, p.152).

Definition of human resource accounting

The human resources accounting committee which is affiliated to the American Accounting Association (AAA) has defined human resources accounting as “the process of identifying and measuring data about human resources, and communicating this information to interested parties” (Rowbottom, 1998, p.44). Brummet also defined it as “a dynamic process of measuring the human element in the organization, and prepare the necessary reports about it,” (Djoumoa, 2008, p.105). Matzy & Usry defined it as “the process of the development of financial evaluations for individuals and groups in the organization and the community, and monitor these evaluations over time” (Djoumoa, 2008, p.105). The most common definition of human resources accounting, is that presented by Flamholtz where he has defined it as “a way for measuring costs which occur in the project or other projects, as a result of choosing human assets, leased, assigned, training or development, also includes the measurement of the economic value of human resources for the project” (Hannan, 2003A, p.108). Thus, the human resources accounting does not only involve the measurement of all costs and investments related to the hiring, recruitment, training and staff development, but also the quantification of the economic value of the individuals in the organization (Ionel et al, 2010, p. 629). There is another definition less widely accepted provided by Likert and Bowers, which adds to the employees of the entity, consumers, shareholders, suppliers and the investment community in general, but it is impractical and stems from the concept of accounting unit of a different nature from the concept is generally accepted in Accounting Studies. Based on the previous definitions; we can say that the human resources accounting is “the process of identifying and measuring human resources as assets, to provide information to internal and external parties, and in particular investors and lenders”.

Regarding the objectives of human resources accounting, it can be summarized as follows [2]:

- Identify or diagnose the value of human resources;
- Measuring the elements of human resources and determine its costs;

- Access to the sound management of human resources;- Provide quantitative information on human resources, which helps managers and investors in making decisions;
- To assist in planning the needs of the enterprise of human resources, and the allocation of functions available to them, in order to ensure control and supervision the polarization, recruitment, training and development expenses, the expenses of leaving the service;
- Motivate management to pay attention to human capital;
- The inclusion of the value and costs of human resources within the accounting system in the enterprise;
- Communication of information on human resources through the financial reports to the parties concerned.

The role of Human Resource Accounting

The role of the human resources accounting is addressing the problems related to these resources as a part of the community, and the attention must be given to him by the enterprises, as well as the impact of human behavior on the results of the business, where it has a significant effect on the productivity of the enterprise and the costs incurred. The attention to human resources have increased as they are concerned to the management of other resources, they operate the machines and work on maintenance, working on the creation of value-added, scheduling production and working to achieve it. If costs items checked accurately it will show that the most of the costs are associated with human resources, and its importance may take a largest share, compared to the rest of the other items cost, and that the reason for the increased interest to research in the field of human resources accounting, which undertaken several functions including the following: (Al-Kadi & Hamdan, 2006, p.152)

- Provide the framework that helps to make decisions on human resources ;
- Provide quantitative and digital information for the cost and the value of human resources ;
- Motivate management to pay attention to the concept of human capital when making any decisions related to human resources.

We can say that the human resources accounting plays a dual role. It is first a new way of logical thinking for the management of human resources in enterprises, and it also urges managers and specialists in human resources to build their own decisions about human resources, on the basis of cost and value related thereto. Secondly, human resources accounting is a system that provide to the management the necessary information to manage their human resources efficiently and effectively.

Hypotheses of Human Resources Accounting

Human resources accounting is based on a set of hypotheses considered as practical basis, under which it works to manage and rationalize the human element within the enterprise, these are represented in the following six hypotheses:

Individuals within the enterprise have a value

The human resource within the enterprise have a great importance, so that has an economic value directly represented in all the effort and time spent in order to perform and complete the work assigned to him now or in the future, and the indirect economic value is represented in the good control of that element and use it, and take advantage of the physical resources, technologies and techniques, as an effective tool able to contribute in achieving the goals of the enterprise.

The value of human resources affected by the pattern of management in the enterprise

The value of human resources is affected by the style of management leadership, because worker productivity depends on their abilities, skills, desires and tendencies. And the knowledge of human resources develops in enterprises that its management focus on training and staff development, as well as the material and moral incentives offered to satisfy different needs, as management contributes in directing the human element and use his energies correctly, which generates to him a positive motivation, psychological and mental willing to contribute in achieving the goals of the entity.

The necessity of having information about the human resource accounting

The information provided by the human resources accounting in terms of measuring the cost and value of the human resources are very necessary for the management of the enterprise in various daily processes for the human element, and in the basic and strategic operations like planning, decision-making, employment, training and human resources development within the enterprise. Also the information contained in the human resources accounting have great importance in oversight and evaluation processes, both for the internal and external customers.

The human element is one of the enterprise's asset

The human resources accounting based on considering human resources as one of enterprise's assets, which must be quantified and disclosed within the financial reports, and that from the premise that human resources are considered as assets with direct and indirect costs of the acquisition, training, development and other costs associated with the production, where it utilized for several periods.

Obtaining human resources represents a cost to the enterprise

Human resources recruitment is an economic cost incurred by the enterprise against services and benefits obtained in the future, so these costs and services can be translated in the form of

cash, and shown in the financial reports, such as workers' wages and the cost of training, rehabilitation, material incentives and all measurable costs.

The human resource accounting Cannot operate in isolation for other systems within the entity

Human resources accounting system has a tangled relationship with the various subsystems, both internal such as analytical accounting, and external such as the employment market.

The possibility of Considered human resource as an accounting asset

As we above-mentioned, the consideration of human resource as an accounting asset and disclosed on it within the financial reports, is one of the basic assumptions of human resources accounting. However, before that we must first find the recognition criteria of this human resource as an item of these reports. Below we will discuss on this recognition criteria, and then to the characteristics of assets and discuss their applicability to human resources .

Accounting Recognition Criteria of Human Asset

Statement No. 5 on the conceptual framework of financial accounting issued by the Financial Accounting Standards Board (FASB) in 1984, Select four conditions or the general standards of accounting recognition of any item of the financial statements, these conditions are: the definition, measurability, relevance and reliability (FASB, 2008, p. CON5–3).

The Definition

The item must meet the definition of an element of financial statements (FASB, 2008, p. CON5–18), where the board (FASB) has identified ten elements: assets, liabilities, equity, investments by owners, distributions to owners, comprehensive income, revenues, expenses, gains and finally losses (Hannan, 2003, p.112). Concerning human resources, it is known that the financial accounting traditionally considered the expenditure of human resources as expenses charged to the accounting cycle, while the human resources accounting demanding the recognition of these expenditures as an asset should appear in the statement of financial position, and then be distributed to future cycles. In the next element we'll discuss the availability of the assets characteristics in human resources, trying to prove the validity of this treatment.

Measurability

The item must have a relevant attribute measurable with sufficient reliability (FASB, 2008, p. CON5– 18), such as the attribute of cost or value or the number of workers classified as academic qualifications, where they choose the most appropriate and important attribute for the user. Generally, we used the attribute of the cost on the date of the operation or event, it also used the attribute of accounting value (replacement cost or net realizable value), or economic value in the form of the present value of the expected future benefits of the available human

resources in the enterprise (Hannan, 2003, p.113). In addition to the financial measurement, the measurement can be done on the quantitative basis, such as personal and professional qualifications.

Relevance

Information is relevant if it has the capacity to make a difference in investors', creditors', or other users' decisions (FASB, 2008, p. CON5–20), through helping them to evaluate past, present, or future events, and confirm or correct past assessments (Escaffre, 2012, p.2). Several experimental studies clarified that the availability of information on human resources in the enterprise is useful and relevant to decision-making, especially in the enterprises where the human resources play an important role in achieving its profits and determine its value. Without this kind of information, the statement of financial position will be incomplete, rather, misleading in many cases .

Reliability

To be reliable, disclosed financial information should be free from material error, and that accurately reflect the transactions or events that represent, in order to achieve this, it must have several characteristics which are: priority of substance over form, neutrality, caution, and completeness of the information (Djongoue, 2007, p.6). Hence, we note that the reliability requirement is linked to the degree of certainty of the measured event, whenever increase the degree of uncertainty, caused a decrease in reliability, thus, reliability affect the timing of recognition of the human resources and its accounting prove. These recognition criteria are rarely available in an integrated manner and at the same time. Therefore, the recognition of an accounting item in the financial statements requires the balancing of many considerations, such as the degree of materiality and relevance in influencing the decisions of users, and the degree of reliability in accounting measurement.

Asset characteristics and their applicability on human resources

The Assets characterized from the other items in the financial reports by set of characteristics, these latter are as follows:

Ownership

Resources must be owned by the project in order to be part of its assets. According to the definition of an asset in accordance with the point of view of the owners of the project, as it is stated in the IFRS, "An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity" (The IFRS Foundation, 2013A, §4.4). Therefore, enterprise imposes control on the asset when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect

those returns through its power over the investee (The IFRS Foundation, 2013B, §6), this control usually occurs from legal rights, where the evidences of the asset ownership is each of possession, control upon it, and the ability to dispose of it. The characteristic of ownership through its legal and economic concept can be applied to human resources, and it is clear that the legal concept of ownership applies to human resources due to the availability of evidence of this characteristic as follows:

Possession of the assets

Human resources are among the resources in the possession of the enterprise for a specific or non-specific period. As well as, there are costs to be borne by possession of human resources, these costs are represented in direct costs of selection, recruitment and training, etc. In addition, the contract, which is between the individual and the enterprise, gives it the legal right to possession and use of the individual.

Control of the asset

One of the most important evidence of ownership is the subordination of resources to the full control, this control entitles the economic unit the right to deprive others of any rights to use the services and benefits of the asset. Therefore, in the case of human resources, the economic unit can impose full control on its staff by the so-called "inhibitor contract" (Al-Jaidi, 2007, p.22), this contract defines the relationship between the individual and the economic unit, wholly or partially, where the consequences of its breach shedding sanctions and financial penalties. Hence, these contracts can be divided into: contracts to protect the legal ownership, contracts to prevent competition. As long as the unit can impose full control over human resources, it may the right to obtain the future benefits and services of these resources.

Ability to dispose of the asset

The owner of assets has the right to dispose of it, in the way that he sees achieve the maximum benefit. The disposal of human resources takes the form of layoffs or dispensing human asset services against a compensation of leaving the service.

Debt repayment

The repayment of debt associated with a basic accounting hypothesis, which it is the continuation of the project, while, the human resources differ from physical assets owned legally in the enterprise, that the recent has a market value and can be converted or used to repay debt, we find that human resources are working within the enterprise where it does not own legally, and cannot be used to repay debt (Hamada, 2002, p.149). However, and as long as the enterprise continuous and able to make a profit through the various factors of production, including labor component, we can say that the human resources contribute in the repayment of the enterprise debts indirectly.

Production capacity

The essence of any asset is the production capacity, and human resources are the most important element of the production, where play a positive role in the production of goods and services. The labor provided by the human resources contributes with the rest of the production factors in achieving profitability, as well as its impact on the rest of the factors of production.

Future benefits

The asset must have the ability to provide the service or benefit to the enterprise, directly or indirectly, either alone or integrated with other assets, in order to achieve positive cash flows in the future (Hannan, 2003B, p.313). Subsequently, assets must have positive benefits, that any resources with zero or negative value are not assets (Al-Kaddi & Hamdan, 2006, p.153). It should also, the ability to control of these benefits and services must have resulted from events or transactions have already occurred in the past, which is not hypothetical or expected, so, to achieve this characteristic it requires the availability of the following elements: (Elliott & Elliott, 2011, p.471)

- Expectation that there will be future economic benefits;
- These benefits can be measured reliably;
- Be right for the project to receive these benefits.

For the human resources, they can achieve future economic benefits through its production capacity. Hence, one of the issues that are debated, the question of whether the right to exploit the future economic benefits of human resources exists, while, the latter cannot be owned only if they exist in a society of slavery. However, the services that are expected of individuals provided may be subject to some form of ownership or control. There are those who say that the enterprise has its own labor force, which are connected by constantly, and this labor force can be purchased or sold when the acquisition or merger (Rowbottom, 1998, p.45). Instead, we can say that there is no exclusive right to the services of employees, they are free to leave the organization at any time. Also, any benefits from investments in human resources, such as training does not necessarily keep them within the enterprise, it doesn't have human assets, however they have some control in the form of labor contracts. From the standpoint of organization theory, these contracts are considered weak in terms of getting the exclusive right to utilize the services of the staff, this is what led to become a fixed-term employment is more prevalent over the past decade, and the enterprises have become demanding their employees to pay increasingly compensation in the case of breach of contract. Based on all of the above, we can say that human resources provides conditions to regard it as an asset, and the availability of these conditions confirms consideration of human resources as assets from accounting concepts, and it can appear in the financial reports without departing from the principles of traditional accounting and this is a logical conducting. Also we can make the accounting treatment of the

human resources under the stander IAS 38 “ Intangible assets”, because besides infrastructure, telecommunications, patents, trademarks, property, and other intellectual resources, human resources are in fact an essential component of the intangible assets equation (Kelsey, 2004); and in the framework developed by Lev (2001) for intangible capital, he classifies intangible assets into the following four groups: (Kashive, 2012, pp.5;6)

- Discovery/learning intangibles technology, know-how, patents and other assets emanating from the discovery (R&D) and learning (e.g., reverse engineering) processes of business enterprises, universities and national laboratories;
- Human resource intangibles, specific human resource practices such as training and compensation systems, which enhance employee productivity and reduce turnover .
- Organization capital unique structural and organizational designs and business processes generating sustainable competitive advantages.

In this regard, there is the experience of the company Telia, which is a top Swedish firm specializing in telecommunication services, is an example of an organization that has adjusts its traditional accounting methods to integrate the value of human assets. In term of its managerial philosophy, Telia regards its employees as resources that are vital to the company’s success. Telia’s efforts to disclose the human resources as an asset in the financial position report has been revolutionary step in the methods of firms accounting (Flamholtz, 1999, p.17) , so that this company is considered as a model in terms of its ability to recognize the importance, appreciate the value of human resources and implement a system to measure this value, and with that it become more able to survive and adapt and competitiveness, which would make certainly work as a leader in the trend toward improved management of human and intellectual capital.

Conclusion

After our analysis of the concept of human resources accounting, its hypotheses, and the possibility of considering human resources as an accounting asset, we conclude from this study a set of results are the following:

- Human resources are one of the strategic resources of the enterprises, they must give attention to its configuration and development to ensure the sustainability of its competitive advantage;
- Human resources accounting is a type of accounting concerned only with the human aspect within the entity;
- Human Resources Accounting have a material and immaterial nature, where it is known that the financial or analytical accounting concerned only with the material aspect, but the human resources accounting is concerned with the physical side of the workers and at the same time concerned with the moral aspect;

- Human resources accounting based on the registration of changes that occur in the field of human resources over a period of time ;

- Human Resources Accounting provides information on the human resources to the enterprise and to the rest of the users of accounting information ;

- Human resource can be considered as one of the assets of the enterprise due to the applicability of the asset's characteristics, and it can be disclosed within the financial reports ;

- Despite the fact that the disclosure of human resources within the financial reporting provides the characteristic of relevance to the disclosed financial information, however, the process of measuring human resources lacks the characteristic of reliability and this is an obstacle to human resource accounting.

References

- Al-Hayali, W. N., Contemporary Accounting Problems and Proposed Models, Arab Open academic publications, Denmark. [Online] Available: <http://www.ao-academy.org/ar/2007/2/1087.html>, (September 1, 2014). [in Arabic]
- Al-Jaidi , S. A. (2007), The role and importance of accounting measurement of human resources in the Palestinian universities in the Gaza Strip - an analytical and practical study -, unpublished master thesis in accounting and finance, Islamic university of Gaza, Palestine.
- Al-Kadi, H. & Hamdan, M. (2006), Accounting Theory, (1st, ed.), The House of Culture, Amman, Jordan. [in Arabic]
- Badawi A. M. & Othman A. I. (2000), Studies in the issues and problems of contemporary accounting, Monchaat Al Maaref, Alexandria, Egypt. [in Arabic]
- Belkaoui , A. R. (2009), Accounting Theory, Translation of Al-Abdullah, R. & Hijjawi, T., Dhar Yazori, Amman, Jordan. [in Arabic]
- Bragg, S. M. (2007), Accounting Best Practices, (5th ed.), John Wiley & Sons, Inc., Hoboken, New Jersey.
- Chen, H. M. & Lin, K. J. (2004), The role of human capital cost in accounting, Journal of Intellectual Capital, 5, 1,116-130.
- Deegan C. (2006), Financial Accounting Theory 2e, unregulated corporate reporting decisions: considerations of systems-oriented theories, McGraw-Hill, Australia.

Dessler, G. (2007), *Human Resources Management*, Translation of Abdel Motaal, M. S. A., Dhar Al Marikh, Saudi Arabia. [in Arabic]

Djongoue, G. (2007), *Fiabilité de l'information comptable et gouvernance d'entreprise: une analyse de l'audit légal dans les entreprises camerounaises*, Colloque international, *La gouvernance: Quelles pratiques promouvoir pour le développement économique de l'Afrique*, Université Catholique de Lille, France.

Djoumoa, K. H. (2008), *Human resource accounting: a new approach to measure the value of human resource services*, *Journal of Baghdad College of Economic Sciences*, 18, 97-122. [in Arabic]

Elliott, B. & Elliott, J. (2011), *Financial Accounting and Reporting*, (14th ed.), Pearson Education Limited, England.

Escaffre, L. (2012), *De la pertinence de l'information comptable: Contribution à l'analyse des interactions entre la doctrine comptable et la recherche positive*, Mémoire en vue de l'obtention du diplôme d'habilitation diriger les recherches, Université d'Angers.

Financial Accounting Standards Board (FASB) (2008), *Statement of Financial Accounting Concepts No. 5: Recognition and Measurement in Financial Statements of Business Enterprises*, [Online]

Available:<http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175820900391&blobheader=application%2Fpdf>, (September 12, 2014).

Flamholtz, E. G. & Main, E. D. (1999), *Current issues, recent advancements, future directions in HRA*,

Journal of human resource costing and accounting, 4, 11-20.

Hafith H. M. (2012), *The intellectual capital of the human individual as a share of partnership capital*, *AL- Mansour Journal*, 17, 239-259. [in Arabic]

Hamada, R. (2002), *Accounting Measurement and disclosure for human resources and its impact on the financial statements - An Empirical Study on the faculty members at the University of Damascus*, *Damascus University Journal*, 18, 1, 134-177.

Hamid, K. & Jafari, E. (2012), *The Effect of Human Resource Accounting (Costing) Information (HRAI) on Balanced Scorecard System in Iran Khodro Company (A Nonlinear Approach)*, *American Journal of Scientific Research*, 62, 101-108.

Hannan, R.H. (2003A), *Contemporary Accounting Measurement Alternatives*, (1st, ed.), Dhar Wael, Amman, Jordan. [in Arabic]

Hannan, R.H. (2003B), *Contemporary Accounting model*, (1 st ed.), Dhar Wael, Amman, Jordan. [in Arabic]

International Experts & Consultants Association (INTEC) (2004), *Return on investment in human capital*, (1st, ed.), Aatrak Printing, Publishing and Distribution, Cairo, Egypt. [in Arabic]

Ionel, V. C., Alina, C., & Dumitru, M. I. (2010), *Human resource accounting -Accounting for the most valuable asset of an enterprise-*, *Annals of the university of Oradea, Economic science*, 1, 2, 925-931.

Kashive, N. (2012), *Creating employer brands by valuing human capital in organization and measuring intangible assets*, *International Journal of Enterprise Computing and Business Systems*, 2, 1, 5;6.

Kelsey, P. (2004), *Human Resources & Valuation of Intangible Assets*, [Online] Available: www.patrickkelsey.com , (January 23, 2013).

Khondoker A. M. & Sonobe T. (2010), *Human Capital and Industrial Development: Evidence from the Machinery Industry in Bangladesh*, *The National Graduate Institute For Policy Studies (GRIPS)*, Tokyo, Japan.

Neamet, N. H. (2010), *Construction and development of human capital and its role in achieving the competitive advantage*, *Ahlgre Journal of Economics and Management*, 3, 16, 199-216. [in Arabic]

Samudhram, A., Sivalingam, G., & Shanmugam, B. (2010), *Non-disclosure of human capital-based information: theoretical perspectives*, *Journal of Human Resource Costing & Accounting*, 14, 2, 106- 128.

Solène, C. & Christelle R. (2011), *Le Capital Humain*, [Online] Available: www.oeconomia.net, (November 1, 2011).

The IFRS Foundation (2013A), *The Conceptual Framework for Financial Reporting*, [Online] Available: <http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/conceptualframework.pdf>, (August 12,2013).

The IFRS Foundation (2013B), *IFRS 10: Consolidated Financial Statements*, [Online] Available: <http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/ifrs10.pdf>, (August 15,2013).

Yahaya, K. A. (2002), *Impact of investment in human resource training and development employee effectiveness in Nigerian banks*, *Journal of social and management sciences*, 12, 185-197.